

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

August 22, 2001

New White House Forecast Confirms Bush Tax Cut Wipes Out Surplus

Dear Democratic Colleague:

This morning, the White House released its Mid-Session Review of the federal budget.

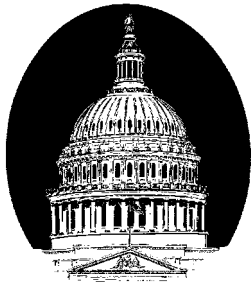
The President's own numbers confirm what Democrats have been saying since last year: in 2001, the Bush tax cut wipes out all of the Medicare surplus and even diverts the Social Security surplus, once a new White House budget gimmick is backed out. In 2001, the budget excluding Social Security and Medicare has shifted from a surplus of \$99 billion to a deficit of \$31 billion. Over 2002 — 2011, the non-Social Security, non-Medicare surplus has shrunk from \$2.5 trillion to approximately \$50 billion in just the eight months President Bush has been in office. For the next five years, the President's budget continues to divert the Medicare surplus and jeopardizes the Social Security surplus as well.

Attached is a brief analysis and some useful graphs examining the White House budget estimates. These materials can also be found on the web page for House Budget Committee Democrats. Next week, CBO will release its own budget forecast. CBO is Congress's official budget scorekeeper and is the agency Congressional Republicans have always asserted is objective and nonpartisan. I await their projections with interest and will be forwarding an analysis of the CBO forecasts as soon as we receive them.

In the meantime, please feel free to call me or the House Budget Committee's Democratic staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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Reaction to the Administration's New Budget Projections

August 22, 2001

After only eight months in office, the Bush administration has reversed the preceding eight years of fiscal improvement. Until this year, the government's fiscal health had improved for eight years in a row, culminating in the largest budget surplus in history last year. Not coincidentally, those eight years also witnessed the strongest economy on record. Using President Bush's own numbers, the total ten year surplus has shrunk from \$5.6 trillion to \$3.8 trillion in eight months. In 2001, the budget excluding Medicare and Social Security has shifted from a surplus of \$99 billion to a deficit of \$31 billion.

Although the President claims that the 2001 surplus is the second largest in history, there is no budget surplus outside of the resources being reserved to pay future Medicare and Social Security benefits. In fact, House Republicans passed legislation making it illegal even to report budget figures that included the Social Security surplus.

At the beginning of the year, the President repeatedly claimed that there was more than enough money for the tax cut, adequate funding of national priorities, and a contingency reserve for unexpected developments. Now only a few months later, the President is trying to claim that the budget is in trouble because of excessive spending, even though the only spending bills passed have been at amounts that he approved.

The 2001 budget deficit outside of Medicare and Social Security merely foreshadows the perilous fiscal course to which President Bush has committed the country for the next decade. The real story is not the one-year invasion of the trust fund surpluses. That is just the first step of a multi-year budget centered on an exploding tax cut that will undermine Medicare and Social Security just as the baby boom generation is beginning to retire.

Without any new spending above what the President has requested, the Bush budget invades the trust fund surpluses in 2001 through 2004. When adjusted to remove a newly concocted accounting gimmick, the Bush budget wipes out the 2001 Medicare surplus and taps

into the Social Security surplus as well. If economic growth is even slightly below the robust pace the administration has assumed, the Bush budget will continue to spend all the Medicare surplus and some of the Social Security surplus for years to come. This is true even if spending is held to the levels that the President has requested.

The Bush budget's invasion of the trust fund surpluses is a tell-tale sign that the overall Bush budget strategy is flawed. It calls into question the credibility of the President's other budget promises, since he made the inviolability of the trust fund surpluses a hallmark of his agenda just a few months ago. Furthermore, both Medicare and Social Security face long-term fiscal challenges, and preserving the surpluses temporarily building in their trust funds is the least we can do to strengthen them.

The President has gone back to the bad old days of using rosy economic assumptions to make it appear that his numbers add up. The Reagan and first Bush administration both routinely issued economic forecasts well above the Blue Chip consensus of private forecasters. In the Clinton administration, OMB forecasts tracked the Blue Chip consensus quite closely. The administration forecast released today projects real economic growth over the next four quarters of 3.7 percent, well above the Blue Chip forecast of 3.4 percent and the Federal Reserve's expectation of 3.1 percent.

The Republicans are piling gimmick upon gimmick to conceal the problems with the Bush budget. In addition to the rosy economic assumptions released today, Republicans are:

- ▶ misrepresenting the true cost of the Bush tax cut by sunsetting all its provisions at the end of 2010,
- ▶ holding back any estimate of the true long-term cost of the President's contemplated defense buildup until next year,
- ▶ playing games with the accounting of Social Security receipts to make it appear that the Bush budget doesn't invade the Social Security surplus in 2001,
- ▶ delaying by two weeks the payment of corporate income taxes to make it appear that the Bush budget doesn't invade the Social Security surplus in 2002,
- ▶ pretending that the Medicare surplus doesn't exist, which to them paradoxically means that it can be spent.

The explosion of the Bush tax cut's cost in coming years is keeping interest rates high and hindering an economic recovery. The Federal Reserve has aggressively lowered short-term interest rates, but long-term rates, have barely moved. At a July 24 Senate Banking

Committee hearing, Fed Chairman indicated that the tax cut's impact on the surplus in future years has prevented a decline in long-term interest rates.

Senator Schumer: "One other thing you mentioned...you thought that rates hadn't come down enough was that the rate of decline of Treasury debt had been not as great as we thought...Is that due to the tax cut?"

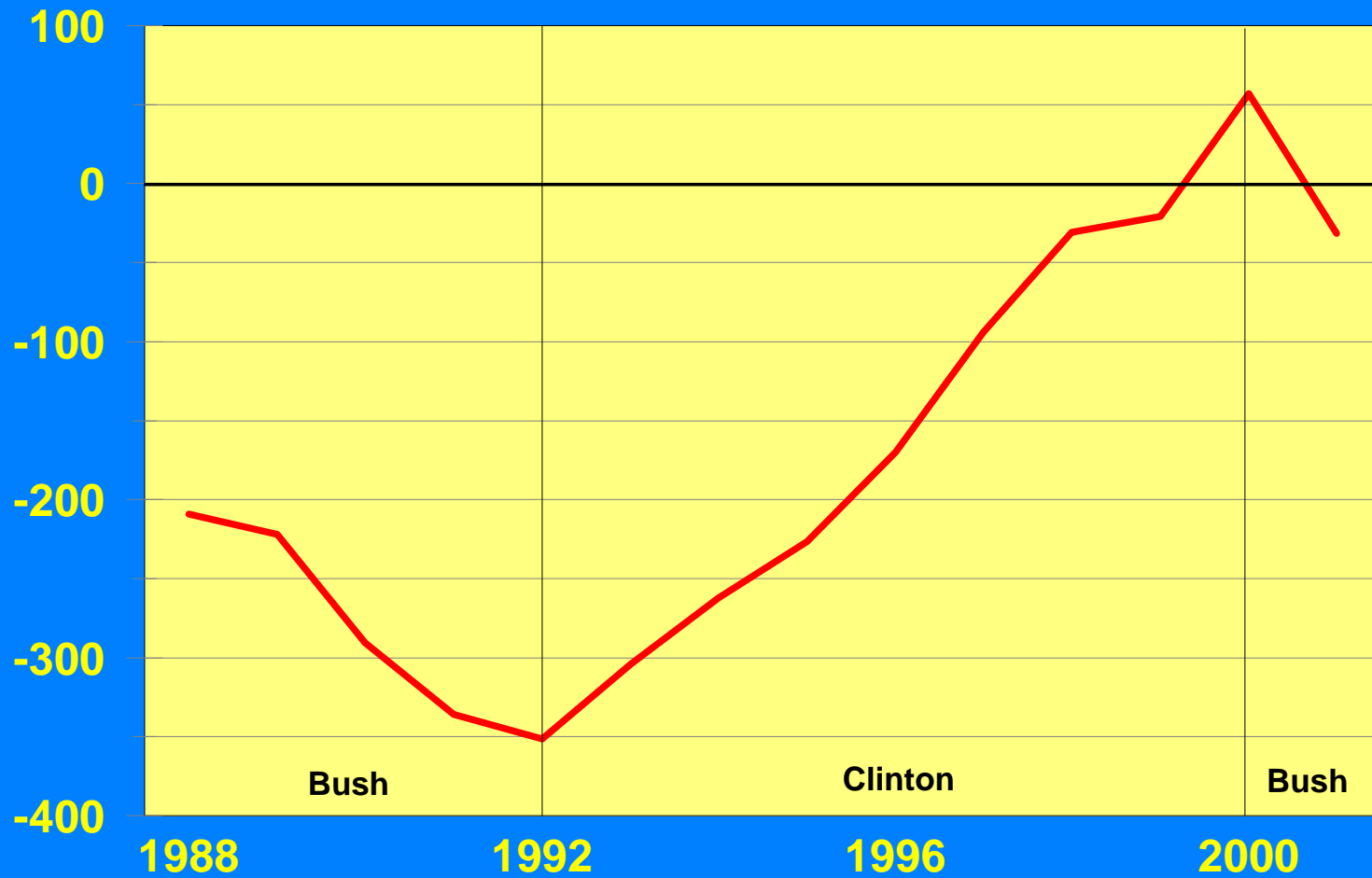
Fed Chairman Greenspan: "I think it's basically to a series of things: one, the tax cut; two, expenditure increases which were higher than expected; and three, the economy."

Senator Schumer: "Right, so the tax cut did have a negative effect on this?"

Greenspan: "Oh yes, no question."

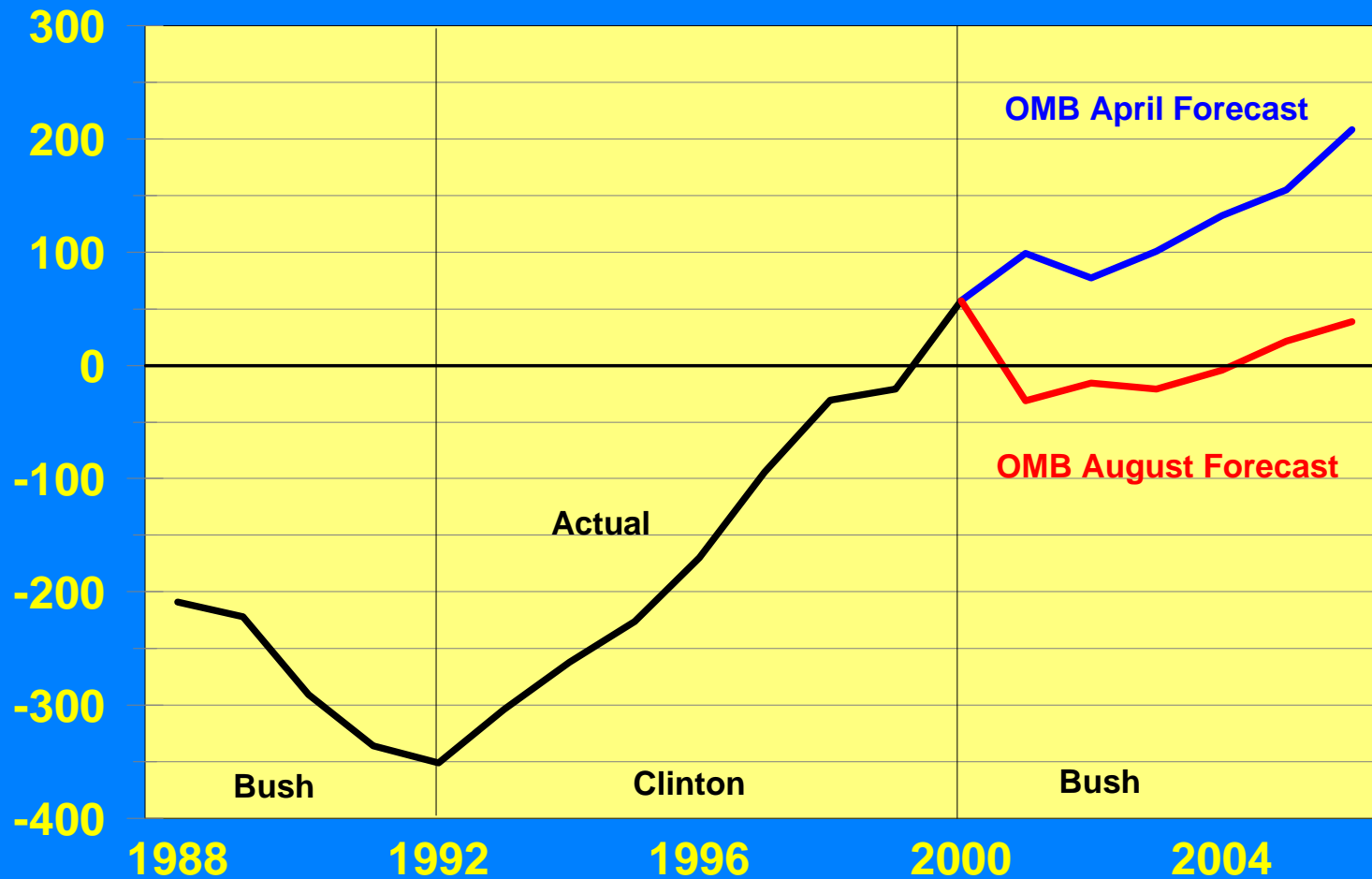
Available Surplus (+) or Deficit (-)

Billions of Dollars



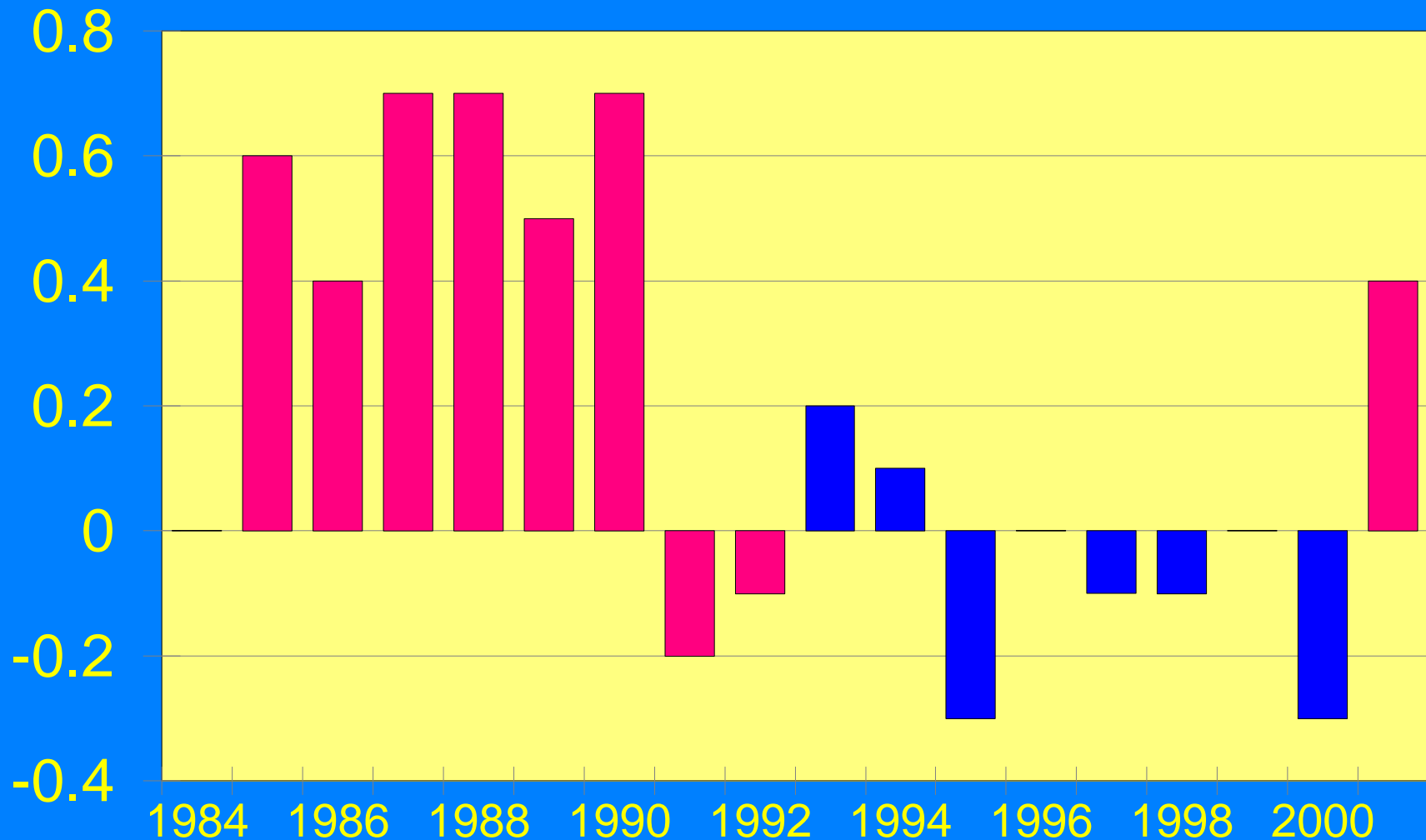
Available Surplus (+) or Deficit (-)

Billions of Dollars



Republican Rosy Scenarios Return

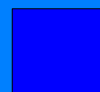
1-Yr Real GDP Growth Forecast, Percent



OMB Above(+)/Below(-) Blue Chip



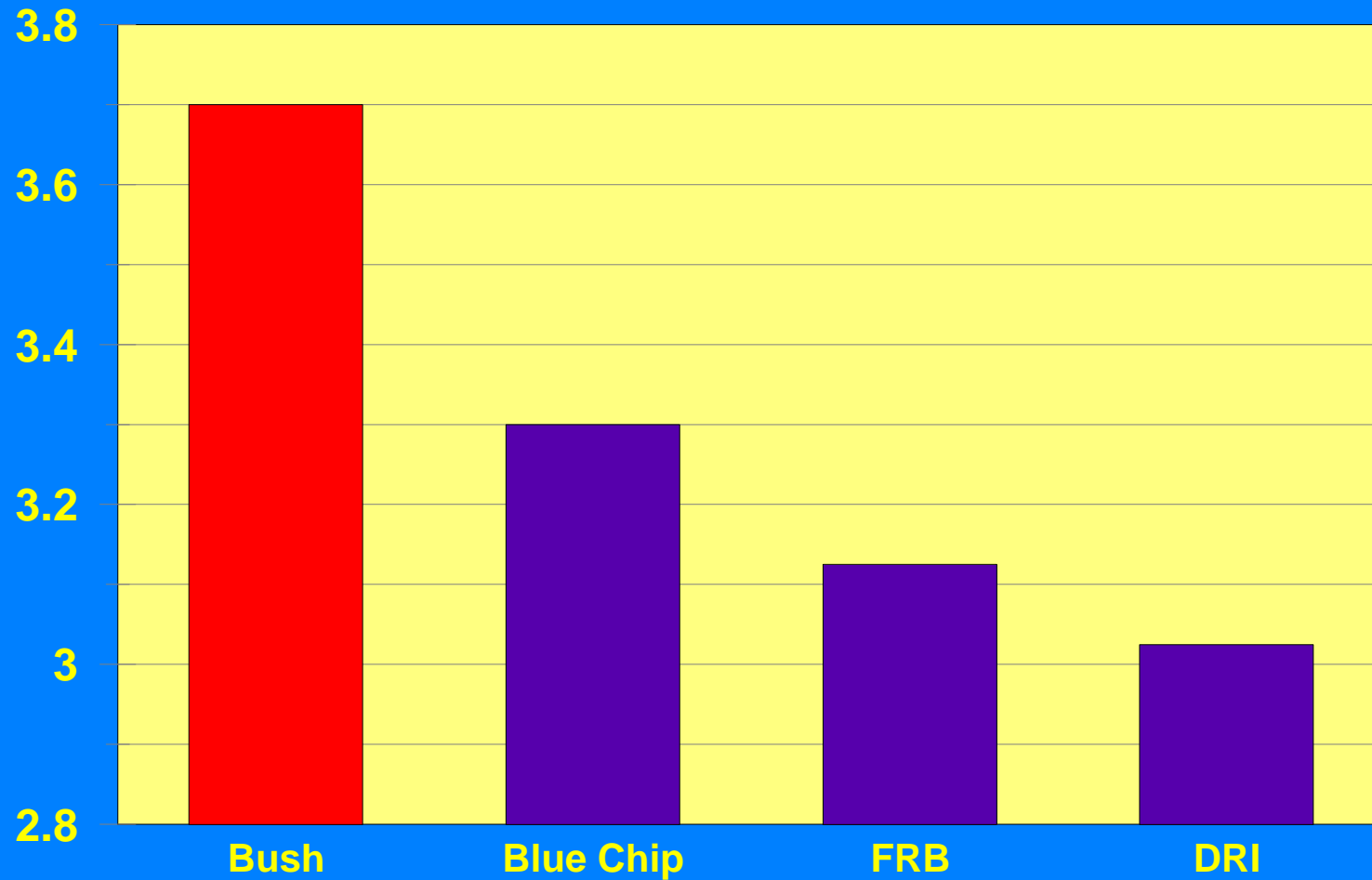
Republican Administration

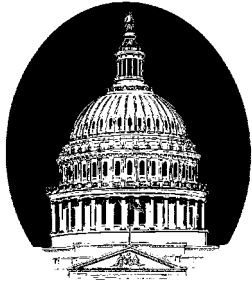


Democratic Administration

Bush vs Mainstream Economists

Real GDP Growth, 4th Q '01 - 4th Q '02





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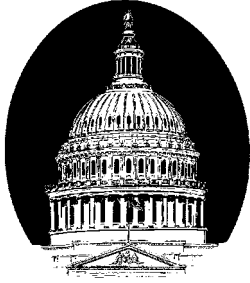
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Broken Republicans Promises to Save Medicare and Social Security Surpluses

- **President George W. Bush** — “Every dollar of Social Security and Medicare tax revenue will be reserved for Social Security and Medicare.” (February 24, 2001; Radio Address to the Nation)
- **Secretary of Treasury Paul O'Neill** — “Let me say to you every dollar ... that comes in for Medicare will be spent for Medicare.” (March 1, 2001; Senate Budget Committee hearing)
- **House Speaker Dennis Hastert** — “We are going to wall off Social Security trust funds and Medicare trust funds...And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.” (March 2, 2001; *BNA Tax Reporter*)
- **House Majority Leader Richard Armey** — “We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we 'll do that.” (July 11, 2001; *BNA Tax Reporter*)
- **House Budget Committee Chairman Jim Nussle** — “(T)his Congress will protect 100 percent of the Social Security and HI trust funds. Period. No speculation. No supposition. No projections. The Congress has voted, unanimously – or almost unanimously; there were a few that didn't see it this way – for lockboxes and all sorts of different mechanisms to make sure that this occurred. Both parties prepared budgets that did so. We will protect 100 percent of Medicare and Social Security.” (July 11, 2001; House Budget Committee hearing on Defense Department Budget Priorities)
- **Senator John Ashcroft** — “Last year, for the first time since 1957, Congress balanced the budget without spending a penny of the Social Security surplus. When Congress accomplished this important goal, I immediately set my sights on a higher goal - that is, to protect the Medicare Part A surplus in the same manner.” (June 22, 2000; Senate floor)
- **Votes by House Republican** ---House Republicans have voted almost unanimously seven times since 1999 to establish lockboxes to protect both the Social Security and Medicare surpluses. They even voted to make it illegal for the government to display the budget surplus using Social Security Trust Fund money.
- **Votes by Senate Republicans** ---Senate Republicans have voted almost unanimously twice over the past two years to establish lockboxes protecting the Social Security and Medicare surpluses.



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Bush Efforts to Shift Blame onto Prior Spending Don't Wash

In an effort to shift the blame for diverting the Social Security and Medicare surpluses away from their oversized tax cut, the Bush Administration and Congressional Republicans now are trying to blame large spending in 2001 for the deficit. But for the following six reasons, Republicans can't pass the buck.

1. **The spending increase from 2000 to 2001 was only a slight increase in real (inflation-adjusted) terms.** Total outlays increased by 4.5 percent from 2000 to 2001, but a 3.9 percent increase was required just to maintain constant purchasing power at the 2000 level.
2. **The Republican Congress spent more than President Clinton requested.** The budget resolution level set last year was never realistic, and many congressional Republicans stated so publicly. It is thus not surprising that appropriations exceeded the unrealistic budget resolution target. What many observers forget, however, is that the Republican Congress exceeded President Clinton's request by \$5.3 billion in budget authority and \$3.2 billion in outlays. When the White House criticizes last year's Congress, it is criticizing its own party's spending priorities.
3. **The President is proposing to increase the 2001 appropriations level by 7.2 percent in 2002.** While the Bush Administration decries the level of 2001 appropriations, they propose increasing it by 7.2 percent in 2002 (when the President's \$18.4 billion increase for defense is included). This increase is more than the 6.7 percent increase in budget authority between 2000 and 2001 (see attached chart).
4. **The President and Congressional Republicans never rescinded "pork barrel" projects or other items that "busted the budget."** When President Bush took office, more than eight months remained in fiscal year 2001. The Bush Administration had ample opportunity – even the responsibility – to eliminate any wasteful or unnecessary appropriations, but chose not to do so.
5. **The President added funding to 2001.** Two separate bills increased funding by \$12 billion in 2001. The President proposed an additional \$6.5 billion for a supplemental spending bill and Congress kept to his limit. The President also signed into law a \$5.5 billion agricultural assistance bill for 2001 that had been included in the Republican Congressional budget resolution.
6. **The President should have taken into account the possibility of an economic downturn in his budget.** The President's budget did not leave any margin for weaker revenues, even as economic evidence prior to his taking office pointed to a weakening economy. The President's tax cut totaled \$74 billion in 2001, which was 80 percent of the non-Social Security, non-Medicare surplus prior to the updated surplus forecasts.

The Bush Budget Spends More: 2001 vs. 2002 Appropriations



Note: For consistency, advance appropriations and 2001 supplementals are excluded.

SENATOR SCHUMER: Right, so the tax cut did have a negative effect on [long-term interest rates]?

FED CHAIRMAN GREENSPAN: Oh yes, no question.

***Senate Banking Committee
July 24, 2001***